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SUBJECT: INDONESIAN AUTHORITIES CONFIDENT, BUT NOT COMPLACENT,
ABOUT CURRENT ECONOMIC CONDITIONS

¶1. (SBU) Summary: Indonesian economic policymakers appear confident, relishing the wave of positive attention the country has received in recent weeks. The recent upward revision by the IMF of its 2009 growth forecast for Indonesia and an improvement in the outlook for its sovereign rating by Moody's are the latest recognition of the economy's current resilience (septel). Authorities are not complacent, however, about challenges still posed by the "global financial tsunami." While Finance Minister Sri Mulyani Indrawati said at a June 13 conference that she expected the Indonesian economy to grow by at least four percent in 2009 and by up to six percent in 2010, she also called for continued international cooperation to support recovery of the still fragile global economy. End summary.

FINANCE MINISTER: "NO COMPLACENCY AT ALL"

¶2. (U) Finance Minister Sri Mulyani Indrawati told an international audience of central bankers, regulators and private-sector financial actors that she welcomed recent improving global economic conditions, but had "no complacency at all" that the global economic downturn was drawing to an end. Regarding Indonesia's relative economic resilience, Indrawati said Indonesia's assertive domestic policy response and active economic diplomacy had restored confidence and credibility -- "the most valuable asset" -- following the disruption of financial markets last fall. Indrawati delivered her remarks on June 13 at Bank Indonesia's (BI) annual international seminar focused on "Global Financial Tsunami: What Can We Do?"

¶3. (U) The minister echoed calls she has made previously for a coordinated response to the crisis: the need for collective counter-cyclical measures; the need for the right balance between market regulation and dynamism and innovation (and recognition of the likelihood of an overreaction in regulatory approach, which may delay eventual recovery); and the need for multilateral development banks (MDBs) and international financial institutions (IFIs) to provide additional resources to developing and emerging economies hit by the crisis. She also highlighted her continued focus on improving governance and accelerating budget expenditure -- particularly for priority infrastructure investments key to increasing longer-term growth.

KUDOS TO JAPAN, BRICKBATS FOR CREDIT RATING AGENCIES

¶4. (SBU) Indrawati praised "the outstanding efforts" of the government of Japan in both the G20 and in ASEAN + 3 to assist

countries in the region in responding to the crisis. She then delivered a scathing critique of credit rating agencies and their failures and the need for closer monitoring and increased transparency. After excoriating the agencies for having not raised Indonesia's sub-investment grade sovereign rating, Indrawati challenged them to come to Jakarta to her office to learn how Indonesia had changed in the past decade.

15. (SBU) The minister's most interesting observations came during occasional detours from her prepared remarks and in the question and answer period which followed. These remarks were a mix of philosophical musings, vents of frustration likely triggered by the current presidential political campaign which has featured ceaseless attacks on the administration's economic record, and cautions about potential economic challenges down the road. Indrawati riffed on the gulf between a global economic crisis and sovereign-based economic policymaking and on the trade-off between good governance and development goals when "everyone wants to provide a check and there is no balance". She cited the need to manage a democratic government's inefficient decision-making process, while trying to accelerate implementation of the government's fiscal stimulus, and noted the Indonesian public's current obsession against government debt financing and the yearning by some for "benevolent authoritarianism". She also cautioned about the risks to recovery of a possible surge in commodity prices.

BI: LOOKING AT STICKY LENDING RATES, FUTURE FINANCIAL SUPERVISORY STRUCTURE

16. (U) BI officials, including Acting Governor Miranda Goeltom and Director of Banking Regulation and Research Halim Alamsyah, focused

JAKARTA 00001026 002 OF 002

on the importance of long-term financial stability, the health of the banking sector and the future structure of Indonesian financial supervisory functions. Goeltom said changes in financial system behavior had increased the complexity of monetary policy in Indonesia, bolstering the need for policy flexibility. She highlighted the intensification of the role played by risk perception both in the dynamics of Indonesia's financial account and in the very slow response of the banking sector to transmit reductions in the BI policy interest rate to lower bank lending rates. While BI had lowered the policy rate 225 basis points from December 2008 to May 2009, bank lending rates had fallen only 65 basis points and deposit rates by 108 basis points.

17. (U) Alamsyah described the Indonesian banking sector as stable, liquid, well capitalized (with a capital asset ratio of 17.6 percent as of April 2009) and very profitable, but not very efficient. Credit risk was, in his view, manageable and banks are well provisioned against slightly rising non-performing loans. Alamsyah said supervisory function challenges included continued information gaps among financial supervisors, regulatory arbitrage among markets, the need to strengthen prudential enforcement, the need to provide greater financial inclusion and the need for a clearer mandate for Indonesia's Crisis Management Protocol, which remains based on a Memorandum of Understanding.

18. (U) The seminar also included a brief discussion of plans to split BI's monetary policy and financial supervision by establishing a Financial Services Authority (OJK) by no later than 2010, as provided by the Banking Act of 1999, as amended, to regulate financial institutions. Given Indonesia's current banking structure, in which banks are only lightly conglomerated, some participants favored BI retaining intensive supervision of core banks, while arguing non-core financial institutions should receive less intrusive supervision but be subject to strong disclosure requirements.

PRIVATE SECTOR: A (MOSTLY) UPBEAT OUTLOOK ON INDONESIA

19. (U) Compared to the sober assessments of the global outlook by IFI and MDB officials and the truly gloomy views on global conditions and crisis response from various academic participants, private-sector bankers and investors participating in the BI seminar held generally positive assessments of prospects for the Indonesian

economy. Simon Morris, CEO, Standard Chartered Indonesia, was upbeat, projecting GDP growth of four percent for Indonesia in 2009. Morris argued that while the West had experienced systemic failure and collapse, Asia was facing a cyclical challenge. Asian banks were better prepared to withstand recent financial market turmoil as a result of reforms made following the Asian financial crisis, had been less leveraged than their Western counterparts and were less exposed to toxic assets.

¶10. (U) Gita Wirjawan, founder of private-equity firm PT Ancora International and a former investment banker, said he shared a pretty positive view of the Indonesian economy given sound fiscal policy and good budget management. He expects BI to reduce the policy interest rate to six percent by end-2009, a forecast considerably lower than most market analysts. Wirjawan said stabilization of some commodity prices had driven the recent equity market rally, but warned against overconfidence about the amount of capital that will be available to Indonesia going forward, given current and future U.S. financing needs.

NORTH